GOVERNOR ARNOLD SCHWARZENEGGER

April 2, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Frank and Mr. Bachus,

In Los Angeles, home to millions of Americans and one of the largest cities in the United States, the average home costs more than $589,000. Many homes selling for more than $730,000 last year featured fewer than three bedrooms and about 1,300 square feet. These are modest homes, purchased by middle-class, hardworking Californian families – at prices far higher than their equivalents across the nation. That is why I am offering my thanks for your leadership in temporarily raising the loan limits eligible for Federal Housing Administration (FHA) insurance in the economic stimulus package recently enacted.

I urge you to make this increase from $362,790 to $729,750 permanent so that FHA can re-establish itself as an integral part of California's mortgage market. The huge disparity in housing costs across the nation made FHA virtually irrelevant in California until the loan limits were temporarily raised. Now, 47 of California's 58 counties qualify for loans, and 14 qualify for the new FHA maximum loan limit of $729,750. More than 21 million people, the majority of California's entire population, live in these 14 counties alone – a number greater than the entire population of nearly every other individual state in the nation.

These worthy, yet temporary, FHA programs will have a dramatic impact in California this year by helping families find sound financing for homes that they may not otherwise be able to buy. However, FHA will slip back into relative obscurity in California on January 1, 2009, if the loan limits are not permanently increased, along with the limits for Fannie Mae and Freddie Mac.

In just the short time since the loan limit was temporarily increased, there has been a dramatic surge in activity in FHA programs that were previously out of reach for most Californians. FHA Secure, FHA's high loan-to-value programs and its attention to borrowers with imperfect credit are all welcome additions to California's above-$362,790 marketplace. Also, the availability of FHA's 203(k) rehab program in this price range will be a tremendous help in reintroducing distressed Real Estate Owned (REO) properties back into the hands of California families.

Under the prior loan limits, FHA saw its California loan volume decline by a staggering 98 percent from FY 2001 to FY 2006, dropping to a mere 2,599 loans written in the entire state. This represented a loss of $13.6 billion in much-needed mortgage liquidity for California homebuyers, helping to fuel demand for non-traditional loan products.

This is a difficult time for potential and existing homeowners here and across the country, and I appreciate what you have done thus far. These temporary loan limit increases have already done some good for California's working-class families. Permanent increases stand to do much more.

Sincerely,

Arnold Schwarzenegger